



Policy Title:	Investment Policy Statement
Effective:	January 8, 2019

This Investment Policy supersedes previously approved investment policies.

I. Introduction

The intent of the Investment Policy (the “Policy”) of the City of Burlington (the “City”) is to define the parameters within which the City’s operating and restricted cash balances are to be managed. In methods, procedures and practices, the Policy formalizes the framework for the City’s investment activities that must be exercised to ensure effective and judicious fiscal and investment management of the City’s funds. The guidelines are intended to be broad enough to allow the Chief Administrative Officer to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard investments. The guidelines are meant to ensure that the necessary funds are available to meet the cash needs of City operations in the short term, and the prudent investment of other funds held by the City.

II. Authority

In accordance with Title V Article 49 § 138 of the City’s Charter, the cash and investment functions of the City are administered by the Chief Administrative Officer (CAO) and their designee(s) subject to the limits of this Policy.

III. Scope

This Policy shall cover all funds of the City (the “Investment Portfolio”) entrusted to the CAO, except those funds covered by any separate City Council-approved agreements, Burlington Electric Department Funds, any trust indenture or bond covenants, or pension or retirement funds.

IV. Standards of Prudence

Investments of City funds shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

V. Delegation of Authority

Authority to manage the investment program is granted to the Chief Administrative Officer (“Investment Officer”) as designated by the City Council. With Council approval, the Investment Officer may designate the authority to assist with the management of the investment program to the Director Financial Operations and/or other approved City employees (the “Designee(s)”).

Responsibility for the operation of the investment program is hereby delegated to the Investment Officer who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this Investment Policy. The Investment Officer or Designee will prepare investment reports and other special reports as may be deemed necessary.

All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this Policy and supporting procedures.

The Investment Officer may engage an Investment Manager to devise and implement an investment strategy to achieve the goals stated in this Policy and provide input on performance measurement criteria. The Investment Manager would be selected by a competitive bid process, following standard City procurement guidelines, and would be approved by the Board of Finance and City Council prior to engagement.

VI. Ethics and Conflict of Interest

Officers and employees involved in the investment process shall refrain from personal business activities that could conflict with proper execution of the investment program, or which could impair their ability to make impartial decisions and shall comply with the requirements set forth in Title V Article 46 § 133 of the City Charter (Conflicts of Interest).

VII. Investment Objectives

The City's investments shall be managed with the objective of obtaining a market rate of return, throughout budgetary and economic cycles, commensurate with the investment risk constraints and cash flow needs of the City's investment portfolios, and in a way that ensures funds are invested with the goal of no realized losses. The primary objectives, in priority order, of the City's investment activities shall be:

- A. Legality.** Investments shall be made in accordance with applicable laws and this Investment Policy.
- B. Safety.** Safety of principal is the foremost objective of the investment program. The City's investments shall be undertaken in a manner that seeks to ensure preservation of capital in the portfolio, **and without realized losses.**
- C. Liquidity.** The City's investments will remain sufficiently liquid to enable the City to meet its cash flow requirements. Investments shall be managed and aligned to the City's long and short-term planning needs.
- D. No Realized Losses.** The investment portfolio is intended to be invested and managed conservatively with the objective of avoiding any realized losses related to the sale of securities. In particular, if changes in interest rates cause the intra-period market value of the securities held to fall below the amortized value of such securities, the investment manager will not sell those securities prior to maturity unless those securities are at risk of default or a loss is deemed unrecoverable.

- E. **Return on Investment.** The City's investments shall be made with the objective of attaining a market rate of return on its investments commensurate with investment type consistent with the constraints imposed by its safety objective and liquidity considerations.

VIII. Permitted Investments

The Investment Officer and their Designee(s) are hereby authorized to invest all funds governed by this investment policy and not subject to bond indenture or other restrictions in the following instruments ("Authorized Investments").

1. **U.S. Treasury & Government Obligations** - U.S. Treasury obligations, and obligations the principal and interest of which are backed or guaranteed by the full faith and credit of the U.S. Government.
2. **Federal Agency/GSE** - Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. Federal agency, instrumentality or government-sponsored enterprise (GSE).
3. **Investment Grade Obligations of State and Local Governments, Instrumentalities, and Public Authorities** – Obligations issued or guaranteed by any state, territory or possession of the United States, political subdivision, public corporation, authority, agency board, instrumentality or other unit of local government of any U.S. state or territory.
4. **Agency Mortgage Backed Securities** - Mortgage-backed securities (MBS), backed by residential, multi-family or commercial mortgages, that are issued or fully guaranteed as to principal and interest by a U.S. Federal agency or government sponsored enterprise.
5. **Negotiable Bank Deposit Obligations** - Negotiable bank certificates of deposit, deposit notes or other deposit obligations issued by a nationally or state chartered bank, credit union or savings association, or by a federally or state-licensed branch or financial institution.
6. **Collateralized Bank Deposits** - Non-negotiable interest bearing time certificates of deposit, savings accounts or deposit accounts in banks organized under the laws of this state or in national banks organized under the laws of the United States and doing business in this state, provided that any such deposits are secured or collateralized. Acceptable collateral for bank deposits shall include only obligations of the U.S. Government, its agencies and GSEs, including mortgage backed securities having a market value at all times of at least one hundred and two percent (102%) of the amount of the investment.
7. **Insured Bank Deposits** - Interest bearing time certificates of deposit, savings accounts or deposit accounts fully insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA).
8. **Commercial Paper** – U.S. dollar denominated commercial paper issued or guaranteed by a domestic or foreign corporation, company, financial institution, trust or other entity, including both unsecured debt and asset-backed programs.

9. Bankers' Acceptances - Bankers' acceptances issued, drawn on, or guaranteed by a U.S. bank or U.S. branch of a foreign bank.

10. Money Market Funds - Shares in open-end and no-load money market mutual funds, provided such funds are regulated by the Securities & Exchange Commission, registered under the Investment Company Act of 1940, and operate in accordance with Rule 2a-7.

11. Fixed-Income Mutual Funds and ETFs - Shares in open-end and no-load fixed-income mutual funds or exchange-traded funds (ETFs) whose underlying investments would be permitted for purchase under this policy and all its restrictions.

12. Other Investments - Funds may be invested in other investments that satisfy the criteria set forth in this Policy, subject to prior review and approval by the Investment Officer, and the Board of Finance.

IX. Investment Parameters

The Investment Officer and his/her Designees are authorized to invest and deposit any City funds. Investments should be diversified with respect to quality, maturity, issuer exposure, and call protection in an effort to minimize investment risk exposure. The City's funds will be diversified by investment sector (e.g., Treasuries, Federal Agencies, etc.) and by issuer in accordance with the requirements set forth below. In addition, the City's funds will be invested in securities with remaining maturities or a remaining average life that does not exceed the maximum maturity/average life for that investment as measured on the investment's purchase date. Each investment will also satisfy the minimum credit rating requirements set forth below. Finally, the average maturity of the City's investment portfolio shall not exceed three (3) years.

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement ¹	Maximum Maturity
U.S. Treasury	100%	100%	N/A	10 Years (10 year avg. life ⁵ for GNMA)
GNMA		40%		
Other U.S. Government Guaranteed (e.g. AID, GTC)		10%		
Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB	50%	40% ⁴	N/A	10 Years
Federal Agency/GSE other than those above		10%		
Investment-Grade Obligations Of State Or Local Governments, Instrumentalities, And Public Authorities	25%	5%	Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)	10 Years
Agency Mortgage-Backed Securities (MBS)	15%	25% ⁴	N/A	10 Year Avg. Life ⁵
Negotiable Bank Certificates of Deposit (NCDs)	50% ²	5% ³	Highest ST or Three Highest LT Rating Categories (A-1/P-1, A-/A3, or equivalent)	5 Years
Collateralized Bank Deposits	50%	50%	None, if fully collateralized.	2 Years

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement ¹	Maximum Maturity
FDIC-Insured Bank Deposits	25%	FDIC limit for insurance	None, if fully FDIC-insured.	2 Years
Commercial Paper (CP)	50% ²	5% ³	Highest ST Rating Category (A-1/P-1, or equivalent)	270 Days
Bankers' Acceptances (BAs)	10% ²	5% ³	Highest ST Rating Category (A-1/P-1, or equivalent)	180 Days
Money Market Funds (MMFs)	100%	25%	Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)	N/A
Fixed-Income Mutual Funds & ETFs	20%	20%, no more than \$10 million in any one Fund.	N/A	N/A

Notes:

- ¹Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization (“NRSRO”), unless otherwise noted. ST=Short-term, LT=Long-term.
- ²Maximum allocation to all corporate and bank credit instruments is 50% combined.
- ³Maximum across all non-government permitted investment sectors (excluding Treasuries, U.S. Federal Agencies and Agency MBS) is 5% combined per issuer.
- ⁴Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.
- ⁵ The maturity limit for MBS and ABS is based on the expected average life at time of purchase, measured using Bloomberg or other industry standard methods.

The Investment Officer will regularly monitor the allocation of the portfolio. In the event that any of the City’s investments exceed such limits, the Investment Officer, in partnership with the Investment Manager, shall determine if it is prudent to liquidate an investment to eliminate the excess. They must notify the Board of Finance no less than on a quarterly basis if any of the City’s investments exceed the limits set forth above.

X. Security Downgrades

In the event that any City investment is downgraded below the minimum required rating by any Nationally Recognized Statistical Rating Organization (NRSRO) as published or the City is informed of such circumstance by an approved broker or dealer, the Investment Officer must review the information to determine if the security continues to meet the City’s guidelines.

XI. Investment Management

An Investment Manager may be contracted by the City to develop and implement an investment strategy to achieve the goals stated in this Investment Policy. The Investment Manager will:

- Work with the Investment Officer to develop an investment plan aligned to this Policy;
- Regularly monitor the portfolio;
- Review the asset mix and individual holdings monthly. Notify the City if any holding(s) exceed the stated limits within one month of the exception and recommend an appropriate strategy for rebalancing;
- Provide input on performance measurement criteria;

- Comply with all reporting requirements;
- Be available to provide performance updates to the Board of Finance at least twice a year, at least one meeting being attended in person;
- Provide recommendations to the City about its Investment Policy Statement & investment objectives and strategy; and
- Notify the City when it can no longer meet the conditions of the Investment Policy Statement.

Selection of an Investment Manager will follow the City's Purchasing Policy. Investment Management Services will be put to public bid at least every five (5) years.

XII. Safekeeping and Custody

All investment securities purchased by the City shall be held in the name of the City by a third-party custodial agent that may not otherwise be counterparty to the investment transaction and will be free and clear of any lien. The Custodian and the Investment Manager may be the same party. Further, all investment transactions will be conducted on a delivery-vs.-payment basis. The custodial agent shall issue a safekeeping receipt to the City listing the specific instrument, rate, maturity, and other pertinent information. On a monthly basis, the custodial agent will provide reports that list all securities held for the City and the value of such securities as of month-end.

The custodian provides settlement services for all transactions, provides data necessary for required reports, safeguards the assets, collects and records dividends, interest and other income, and disburses funds as specified in this Policy. City officials and representatives of the custodial agent responsible for, or in any manner involved with, the safekeeping and custody process of the City's investments shall be bonded in such a manner as to protect the City from losses from malfeasance and misfeasance. The custodian will be selected by the City, under procurement rules.

Original copies of non-negotiable certificates of deposit and confirming copies of all other investment transactions must be delivered to the City or its custodial agent.

XIII. Reporting Requirements

Investment reports shall be provided to the City by the Investment Manager and submitted to the Board of Finance by the Investment Officer or Designee at least semi-annually. The reports shall include, at a minimum, the following information for each individual investment:

- Description of investment instrument
- Coupon rate, if any
- Yield to maturity
- Purchase date
- Maturity date
- Purchase price
- Par value
- Discount or premiums, if any
- Accrued interest to date
- Overall portfolio yield based on cost

- Market value of security
- Safekeeping and custody

The submitted investment reports must also include acknowledgement that investments are in compliance with this Policy.

XIV. Performance Standards

Compliance with performance standards will be demonstrated through quarterly reporting on investment performance. If the City engages an investment advisor to manage investments on its behalf, the performance of such investments shall be computed and presented in accordance with Global Investment Standards (“GIPS”).

XV. Authorized Financial Institutions, Depositories, and Broker/Dealers

The Investment Officer will maintain a list of financial institutions and depositories authorized to provide investment services. In addition, the Investment Officer will maintain a list of approved security broker/dealers. Both lists will be developed by conducting a process of due diligence following the City’s purchasing guidelines. For the purpose of this section, the term “broker” means a broker-dealer, broker, or agent of a government entity, who transfers, purchases, sells, or obtains securities for, or on behalf of, a government entity. These may include primary dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (uniform net capital rule). The list of approved security broker/dealers shall be reviewed annually, and updated every three (3) years, if not more frequently.

Where an Investment Manager is selected, as outline above, the Investment Manager will select financial institutions and security broker/dealers that it deems prudent, with the City’s approval.

Authorized Financial Institutions and Depositories

- (i) The Investment Officer shall determine which financial institutions are authorized to provide investment services to the City. Institutions eligible to transact investment business with the City may include:
 - a. Primary government dealers as designated by the Federal Reserve Bank;
 - b. Nationally or state-chartered banks;
 - c. The Federal Reserve Bank; and
 - d. Direct issuers of securities eligible for purchase.

- (ii) All financial institutions who desire to become depositories must supply the following (as appropriate):
 - a. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines;
 - b. Proof of state registration; and
 - c. Evidence of adequate insurance coverage.

Broker/Dealers

- (i) All broker/dealers who desire to become qualified for investment transactions must supply the following (as appropriate):
 - a. Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines;
 - b. Proof of Financial Industry Regulatory Authority (FINRA) certification;
 - c. Proof of State of Vermont Registration;
 - d. Evidence of adequate insurance coverage; and
 - e. Certification of having read and understood the City's Investment Policy.

XVI. Amendments and Effective Date

This Investment Policy shall be updated on a continuing basis by incorporation of substantive changes made to applicable state laws. Any changes made shall be immediately reported, in writing, and submitted for approval by the Board of Finance.